

# CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Professional Services Agreement for Electric System Engineering Valuation Study (\$12,000)

**MEETING DATE:** May 6, 1998

**SUBMITTED BY:** Electric Utility Director

**RECOMMENDED ACTION:** That the City Council authorize the City Manager to sign the attached contract with R.W. Beck to perform an engineering valuation study of the Lodi electric distribution/transmission system.

**BACKGROUND:** The Electric Utility Department's Competition Transition Plan is evolving into better-known strategic elements. The principal element of the plan is now recognized to be debt restructuring and the resulting effects on cash flow. Debt restructuring involves certain generation projects jointly undertaken with other utilities through the Northern California Power Agency (NCPA) and our local electric system.

A combined debt restructuring of the Geothermal Project and the Calaveras Hydroelectric Project is the only NCPA opportunity available for significant changes in cash flow requirements for project participants in order to help reach market-based electric rates in the near future. Electric Utility and Finance Department staff have been closely following the development of debt restructuring alternatives. Two major issues must be resolved prior to final alternative selection. The first issue is reaching consensus on the future electric energy market in order to establish a value for generation plant stranded investment. The second issue is reaching consensus on a common approach to debt restructuring which appropriately balances cash flow requirements (NCPA Base Case) and net present value (NCPA Alternate Case). We believe we are still on track to bring a recommendation to Council in time for the targeted July 1998 issuance date.

The local electric system element consists of three items: 1) the Lodi Transmission Project debt defeasance and re-issue; 2) distribution system recapitalization; and 3) distribution system capitalization. This element requires a system valuation for which the contract with R. W. Beck is recommended. The valuation must be performed by a third party in order to substantiate electric system value to determine bond underwriting limits. Additionally, R. W. Beck has a great deal of experience with preparing the Engineer's Letter which accompanied previous NCPA project financings and re-financings.

The Lodi Transmission Project financing consists of defeasing the existing financing which is part of the NCPA Multiple Capital Financing and obtaining new tax-exempt financing (\$12.1M est.). Proceeds from the initial financing have not been used and are still at NCPA. The distribution system recapitalization financing will cover capital expenses from October 1996 through the end of FY2000-2001 (\$12.0M est.). The distribution system capitalization financing will be sized to provide the final cash flow adjustment required (\$18-25M est.).

Once the NCPA debt restructuring plan is finalized and Lodi's system valuation is done, the Department will complete the local system debt restructure plan needed to achieve the desired cash flow required to meet the City's

Approved

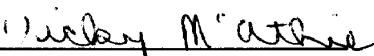
  
H. Dixon Flynn  
City Manager

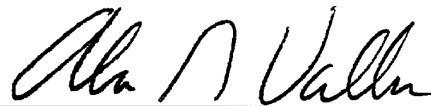
of reaching market-based electric energy rates as soon as reasonably possible. At that time, the Department will bring its recommendation to the Council.

FUNDING: 161 Electric Utility Outlay \$12,000

Prepared by: Jack Stone, Manager, Business Planning and Marketing

Funding Approval

  
Vicky McAthie, Finance Director



Alan N. Vallow  
Electric Utility Director

ANV/JS/lst

c: City Attorney

Approved

H. Dixon Flynn  
City Manager

April 23, 1998



Mr. John (Jack) Stone  
Business Planning and Marketing Director  
City of Lodi  
1331 South Ham Lane  
Lodi, California 95242-3995

**Subject: Contract Letter: Distribution System – Engineering Valuation Study**

Dear Mr. Stone:

R. W. Beck is pleased to submit its proposal to provide the City of Lodi with Electric System Consulting Services to provide a value of the City's distribution system. We understand the City's objective and are prepared to begin the study upon authorization.

#### **PROJECT UNDERSTANDING**

The purpose of the project is to support the issuance of bonds to finance Lodi's existing distribution system and to reimburse the City for expenditures previously made. The financial industry will require assurance that the value of the assets exceeds the proposed debt associated with those assets.

It is understood that you are seeking the most economic way to arrive at the necessary level of assurance. In that regard, this proposal is based on the assumption that a high-level review of financial statements and plant records (including system maps) will provide such assurance. In the event that preliminary findings show that value and proposed debt are nearly equal, a more detailed analysis will be required. We are prepared to provide a proposal for a second phase of effort if that is required.

Steps anticipated for this project include:

- Submit initial data requests.
- A project kick-off meeting to review expectations and interview key personnel and complete understanding of data received.
- Define and/or reaffirm existing distribution/transmission system being financed.
- Examine existing financial and accounting records associated with defined distribution system in order to determine Original Cost Less Depreciation (OCLD). It is understood that this may not capture all costs, including labor and other costs.
- Examine system maps and engineering records associated with defined distribution system and, using industry standards, calculate estimated Replacement Cost.
- Physically inspect system (for due diligence purposes).
- Attend one policy-level session to present report to Council Members.

A preliminary report would be prepared summarizing the above findings. The report will include a listing of all key assumptions, sources of data, and findings. After the appropriate staff feedback is obtained, five copies of a final report would be delivered.



Mr. John (Jack) Stone  
April 23, 1998  
Page 2



### PROJECT STAFFING

This project will be managed by Dean Park. Technical and computer modeling staff will include Willie Manuel and Brandon Chee. Quality Assurance/Quality Control project oversight will be provided by Ken Mellor, and I will serve as your Director of Client Service.

### PROJECT BUDGET

This project will require approximately four to six weeks of research and effort. We believe that we can perform the identified tasks within a budget of \$12,000. However, if existing databases are incomplete or additional activities are required, R. W. Beck will not exceed the proposed budget without authorization from Lodi. Any changes in project scope will be discussed in advance and mutually agreed to before proceeding. Expenses will be recovered at cost.

If you need resumes or a more detailed outline of the proposed project approach, or other project scope changes, please contact me.

We look forward to working with you and your staff on this project. Please call if you have any questions regarding this proposal.

Sincerely,

R. W. BECK, INC.

A handwritten signature in black ink, appearing to read 'Terrence Kurtz'.

Terrence S. Kurtz  
Director of Client Services

**Accepted By:**

CITY OF LODI

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H. Dixon Flynn, City Manager

**Attest:**

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Alice M. Reimche, City Clerk

**Approved As To Form:**

A handwritten signature in black ink, appearing to read 'Randall A. Hays'.

Randall A. Hays, City Attorney

RESOLUTION NO. 98-65

A RESOLUTION OF THE LODI CITY COUNCIL APPROVING A  
PROFESSIONAL SERVICES AGREEMENT WITH R. W. BECK FOR  
ELECTRIC SYSTEM ENGINEERING VALUATION STUDY

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BE IT RESOLVED, that the Lodi City Council hereby approves a Professional Services Agreement with R. W. Beck for an Electric System Engineering Valuation Study of the Lodi Electric Distribution/Transmission System; and

FURTHER RESOLVED, that the City Manager is hereby authorized to execute this Agreement on behalf of the City of Lodi.

Dated: May 6, 1998

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I hereby certify that Resolution No. 98-65 was passed and adopted by the Lodi City Council in a regular meeting held May 6, 1998 by the following vote:

AYES: COUNCIL MEMBERS - Johnson, Land, Mann and Sieglock (Mayor)  
NOES: COUNCIL MEMBERS - None  
ABSENT: COUNCIL MEMBERS - None  
ABSTAIN: COUNCIL MEMBERS - Pennino

  
ALICE M. REIMCHE  
City Clerk